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SUBJECT: ECUADOR'S MFA PITCHES YASUNI ITT CONSERVATION PROJECT TO WESTERN DIPLOMATS

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¶1. (SBU) Summary. On March 5, 2009 the Ecuadorian Foreign Ministry presented a revised proposal to forego development of oil fields in the environmentally sensitive Yasuni Park in exchange for international compensation. The new initiative focuses on compensation based on carbon credits rather than the value of foregone oil production. End Summary.

A "Revolutionary" Proposal

¶2. (U) Foreign Minister Fander Falconi presided over the March 5 meeting, and former Foreign Minister Francisco Carrion and former Quito Mayor Roque Sevilla briefed Western diplomats on the proposal. The meeting was attended by Ambassadors from several European countries. Falconi presented the Yasuni initiative as a "revolutionary" idea in which Ecuador would make development sacrifices on behalf of the global community. The plan was first presented in June 2007 by President Rafael Correa and was initially called "Keeping Oil in the Ground" (reftel a).

¶3. (U) The Ishpingo-Tambococha-Tiputini (ITT) field constitutes an estimated 20% of Ecuador's total oil reserves. It is located within Ecuador's Yasuni National Park, a UNESCO Biosphere Reserve in Amazonian rainforest with exceptional biodiversity, intact and contiguous habitat, and traditional indigenous populations. The park is located within Ecuador's "Untouchable Zone," a 750,000 hectare area with no road, infrastructure, hydroelectric, oil, or mining development. This allows "uncontacted" indigenous people in the area to continue their traditional lifestyle without disturbance. The GOE's original plan called for the international community to compensate Ecuador for half the value of the petroleum in the ITT field, which, at the time, was about $1.75 billion. In exchange, Ecuador would agree not to exploit the field, thus protecting the biodiversity of the park by preventing deforestation, mitigating climate change by reducing carbon pollution from deforestation and from combustion of the oil, and supporting the indigenous communities in their traditional way of life.

¶4. (SBU) The March 5 meeting was to provide an update on the initiative and present a modified proposal. The key difference is that the GOE now proposes using a carbon-pricing mechanism to value the reserves. Sevilla said that exploiting the ITT reserves would release 410 million metric tons of CO_2 into the atmosphere. The mechanism he proposed for financing the initiative was modeled after the Kyoto protocol, and would consist of the GOE issuing "Certificates of Guarantee Yasuni" (CGYs), which would be classified as carbon bonds ("certified carbon credits") by the signatory countries for Annex 1 of the Kyoto Protocol. Companies and investors would be able to purchase CGYs like other carbon credits

through the European Trading System (ETS) and would register these purchases with participating governments. The Yasuni initiative would also solicit voluntary contributions from supporting governments and individual contributors. Noting the success that the Obama campaign had in raising large sums through a broad network of small donors, Sevilla presented a scenario in which individuals could purchase, either online or through cell phone transactions, "symbolic" barrels of oil that would remain in the ground. Proceeds from the sales of CGYs would be placed in an international trust, whose directors would have a fiduciary responsibility to ensure that the funds are used to advance development goals. The directors would only be able to spend interest from the trust, meaning that the benefits of the initiative would theoretically extend to perpetuity.

Valuing the Reserves

¶5. (SBU) The CGY bonds would be issued over a ten-year period, and the total amount issued would be for the full value of the 410 million metric tons of carbon at ETS prices. The GOE's estimates based upon carbon pricing have a value of $11.75 billion at October 2008 ETS carbon prices ($29 per metric ton) and $7.9 billion at December 2008 prices ($15 per metric ton). If based upon oil prices, the 820 million barrels in the ITT reserves have a GOE-estimated net present value (NPV) of $11.6 billion at the October 2008 West Texas Intermediate (WTI) price of $75/barrel, and an NPV of $3.3 billion at the December WTI price of $49/barrel. (Note: The ITT fields contain heavy oil. Current Ecuadorian oil production sells at a discount from the WTI reference price, and the ITT production would likely sell at even a larger discount, so using

the WTI reference price likely overstates the value of the oil. End Note.)

Use of the Proceeds

¶6. (U) There are five proposed objectives for the use of funds raised through this initiative: 1) Protection of 40 "Natural Areas" in Ecuador, which contain exceptional levels of biodiversity and several indigenous communities. 2) Natural regeneration and reforestation of 2.3 million hectares. 3) Upgrading Ecuador's energy network to make it more efficient. 4) Subsidies to encourage businesses and homes to convert to renewable sources of energy. 5) Financing sustainable development initiatives, including the exploitation of renewable energy resources. Some of these programs might themselves be marketable for carbon credits or future financing for Reducing Emissions from Deforestation and Forest Degradation (REDD).

State of the Project

¶7. (U) The Yasuni initiative has received backing from the Governments of Germany ($300,000) and Spain ($200,000). Sevilla said the GOE was using these funds to perform studies on the project, which are to be completed in March 2009. These studies will be presented to the German government, which will evaluate the initiative. If it approves of the legal, political, and technical aspects, the German government will promote the certification of CGY bonds as carbon credits to other countries in the EU and the OECD. If an "important number" of European countries back the initiative, the GOE will begin issuing CGYs. FM Falconi emphasized that this initiative still had strong backing from Ecuadorian President Correa, and suggested that it had also attracted a broad range of support from European governments, politicians, NGOs, and celebrities.

Comment

¶8. (SBU) There is little doubt that the Yasuni Reserve contains remarkable biodiversity and is worth preserving. However, there are several aspects in the proposal that are problematic, including: the valuation of the project, using either the oil or carbon credit benchmarks; still undefined post-Kyoto rules for different forest uses; lack of clarity on the guarantees that the GOE will provide;

continued pressure to develop the petroleum reserves; and likely Ecuadorian resistance to an internationally managed fund because of sovereignty concerns. In addition, within Ecuador there are many other areas that equal Yasuni in the scope of their biodiversity, and these funds could probably be applied even more effectively in protecting these areas.

Hodges